

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Approval of Minutes of the February 6, 2002  
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: March 6, 2002

INFORMATION: \_\_\_\_\_

PRESENTER(S): Chairperson

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Proposed minutes of the Investment Committee meeting held in open session February 6, 2002 are submitted as Attachment 1.

**PROPOSED  
MINUTES OF THE  
INVESTMENT COMMITTEE MEETING  
OF THE  
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
FEBRUARY 6, 2002  
OPEN SESSION  
BOARD ROOM  
7667 FOLSOM BOULEVARD  
SACRAMENTO, CALIFORNIA**

**COMMITTEE MEMBERS PRESENT**

Gary Lynes, Chairperson  
George Fenimore  
Paul Krasnow  
Marty Mathiesen  
Karen Russell  
Jay Schenirer  
Carolyn Widener  
Annette Porini, representing Director of Finance, Tim Gage  
Kathleen Connell, State Controller  
Curt Robinson, representing Superintendent of Public Instruction, Delaine Eastin  
Ted Eliopoulos, representing State Treasurer, Philip Angelides

**OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT**

Anne Stausboll  
Christine Solich  
Louis Willhoit

**STAFF PRESENT**

Jack Ehnes, Chief Executive Officer  
Christopher Ailman, Chief Investment Officer  
Chris Waddell, Chief Counsel  
Elleen Okada, Director of Investment Administration and External Relations  
Ed Derman, DCEO, External Affairs and Program Development  
Doug Wills, Staff Counsel  
Mike DiRe, Director of Real Estate  
Steven Tong, Director of Internal Equities  
Real Desrochers, Director of Alternative Investments  
Richard Rose, Principal Investment Officer  
Mary Ann Avansino, Administrative Assistant

**OTHERS PRESENT**

Allan Emkin, Pension Consulting Alliance  
Nori Gerardo Lietz, Pension Consulting Alliance

Doug Le Bon, Pathway Capital Management  
Horace W. Brock, Strategic Economic Decisions, Inc.  
Toni Brown, Callan Associates Inc.  
Janet Becker-Wold, Callan Associates, Inc.  
Edna White, CRTA  
Beverly Carlson, CTA  
Pat Geyer, CRTA  
Don Douglas, CTA, Retired  
Dorothy Moser, CTA/NEA, Retired  
Loretta Toggenburger, UTLA, Retired  
Bill Collins, CTA  
Lois Shive, CTA

A quorum being present, Acting Chairperson Fenimore called the open session meeting to order at 9:00 a.m.

I. **ANNOUNCEMENTS** (Item 2)

Mr. Fenimore announced that Mr. Angelides would be participating in the discussion telephonically. Dr. Connell requested that agenda items 5, 14, and 20 be considered first as she would like to participate in the discussion and had commitments which will require her to leave early. Mr. Angelides concurred that he would like to consider item 5 first. There being no objection the requested items would be considered first.

II. **APPROVAL OF MINUTES OF THE DECEMBER 6, 2001 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Dr. Connell, seconded by Ms. Russell and carried to approve the minutes of the December 6, 2001, Investment Committee, Open Session as presented.

III. **ALTERNATIVE INVESTMENTS – URBAN INVESTMENT PLAN AND NEW AND NEXT GENERATION IMPLEMENTATION PLAN** (Item 5)

Mr. Desrochers, Mr. Rose and Mr. Le Bon reviewed the pros and cons of various implementation plan options for investing in underserved urban and rural markets. Discussion included the CalPERS model, a Fund of Funds approach, and a model specifically created for CalSTRS. Discussion ensued

Mr. Lynes arrived at the meeting at 9:20 a.m.

Staff and Consultant recommended a CalSTRS Program for Urban and Rural Investing that would follow-on the research and development of the CalPERS California Initiative. They discussed the recommended plan in which CalSTRS may select some funds in the “umbrella” of funds utilized by CalPERS. The CalSTRS Staff, with the assistance of the Alternative Investment Advisor, would conduct its own due diligence on the selected funds. CalSTRS would review the universe of fund-of-funds managers and select a fund-of-funds manager. Staff and Consultant also recommended incorporation of the new and emerging manager concept into this program. The new and emerging manager concept would either be incorporated into the mandate for the fund-of-funds manager, or a second fund-of-funds manager may be selected with the specific mandate. Discussion ensued.

Ms. Porini arrived at the meeting at 9:28 a.m.

MOTION duly made by Dr. Connell and seconded by Mr. Mathiesen to adopt the resolution to approve the recommendation by Staff and Consultant for the CalSTRS Program for Urban and Rural Investing. Amending the allocation amount to \$350 million and requesting the final implementation plan return to the Committee for approval.

Discussion continued.

SUBSTITUTE MOTION duly made by Mr. Lynes and seconded by Mr. Krasnow to adopt the resolution to approve the implementation plan recommendation by Staff and Consultant for the CalSTRS Program for Urban and Rural Investing and allocates up to \$200 million to be directed toward the underserved and urban rural markets of the Alternative Investment asset class subject to appropriate due diligence of each investment.

Discussion continued.

Roll call vote on the SUBSTITUTE MOTION:

Gary Lynes	YES
Paul Krasnow	YES
Marty Mathiesen	NO
Karen Russell	NO
Jay Schenirer	NO
Carolyn Widener	NO
Annette Porini for	
Tim Gage	NO
Kathleen Connell	NO
Curt Robinson for	
Delaine Eastin	YES
Ted Eliopoulos for	
Philip Angelides	NO

The motion FAILED with 3 members voting YES, and 7 members voting NO.

AMENDED ORIGINAL MOTION duly made by Dr. Connell and seconded by Mr. Mathiesen to adopt the resolution to approve the recommendation by Staff and Consultant for the CalSTRS Program for Urban and Rural Investing. Amending the allocation amount to \$350 million and requesting the final partners selected by staff along with appropriate due diligence for ratification by the Committee.

Roll call vote on the AMENDED ORIGINAL MOTION:

Gary Lynes	ABSTAIN
Paul Krasnow	ABSTAIN
Marty Mathiesen	YES
Karen Russell	YES
Jay Schenirer	YES
Carolyn Widener	YES
Annette Porini for	
Tim Gage	YES
Kathleen Connell	YES

Curt Robinson for Delaine Eastin	ABSTAIN
Ted Eliopoulos for Philip Angelides	YES

The motion CARRIED with 7 members voting YES, and 3 members voting ABSTAIN.

Mr. Angelides disconnected telephonic participation in the meeting at 9:50 a.m.

Mr. Lynes assumed Chairmanship of the Committee at 9:50.

IV. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 14)

Mr. Desrochers and Mr. Le Bon presented the written report and stated that staff had made a \$12.5 million commitment under delegation of authority to TPG Endurance Partners (Cayman) L.P.

Dr. Connell discussed a concept for creating an asset class and allocation for distressed securities and discussed the economic factors prompting her recommendation.

Mr. Ailman stated that the investment type and allocation suggested by Dr. Connell are within current policy parameters. Discussion ensued.

BY CONSENSUS, the Committee determined that no action was required at this time and directed staff to present a policy change to the Investment Committee at such time when a change to policy is necessary.

V. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 10:15 a.m. and reconvened into closed session.

VI. **RETURN TO OPEN SESSION**

Chairperson Lynes reconvened the meeting into open session at 10:40 a.m. Chairperson Lynes introduced Jack Ehnes, CalSTRS new CEO.

Dr. Connell did not return to the meeting when it reconvened. Mr. Willhoit represented the State Controller.

VII. **INVESTMENT INSIGHT PROGRAM – ECONOMIC THEORY IN A CHANGING WORLD** (Item 7)

Mr. Ailman introduced Mr. Brock who gave an informational presentation to the Committee and discussed a historic overview of the US economy, innovation and the third industrial revolution, and global economic linkages. Discussion ensued.

Chairperson Lynes recessed the meeting at 12:15 p.m.  
The meeting reconvened at 1:08 p.m.

VIII. **CURRENCY TASK FORCE – MANAGING CURRENCY RISK** (Item 9)

Ms. Okada introduced Ms. Becker-Wold and Ms. Brown who presented an overview of currency management, discussing the impact of currency on risk, return and the correlation of international equity, hedging currency exposure. Discussion ensued

IX. **REAL ESTATE – INVESTMENT POLICY REVISED** (Item 4)

**Mr. DiRe and Ms. Gerardo Lietz reviewed proposed changes to the Real Estate Policy.  
Discussion ensued.**

Mr. Eliopoulos stated for the record that the Treasurer would like to see a more in depth presentation on the proposed policy changes to include a discussion of the pros and cons of such changes, the opportunity set that would be accessible by the change, advisory and staff capability to handle the change (such as knowledge of the markets to be accessed), and the change in delegation.

MOTION duly made by Mr. Fenimore, seconded by Mr. Eliopoulos and carried to table the item pending a more in depth presentation to be scheduled for the April meeting.

**X. REAL ESTATE – PCA/E&YKL CONTRACT EXTENSION (Item 6)**

Mr. DiRe reviewed the staff recommendation to extend the contract for Pension Consulting Alliance/E&Y Kenneth Leventhall for the final one-year allowed for under the original contract.

MOTION duly made by Mr. Fenimore, seconded by Mr. Eliopoulos and carried to extend contract 97-055C for one year commencing April 1, 2002. Mr. Willhoit abstained.

**XI. UPDATE ON LEGISLATION (Item 8)**

There was nothing to report.

**XII. ALTERNATIVE INVESTMENTS – CONSULTANT RFP UPDATE (Item 10)**

Mr. Desrochers announced that the RFPs for Consultant and Advisor/Independent Fiduciary are scheduled for release Friday, February 8, 2002.

**XIII. SEMI-ANNUAL REPORT ON CA & CRA (Item 11)**

Mr. Ailman reviewed the written report identifying the Fund's investments within California.

**XIV. CREDIT ENHANCEMENT PROGRAM – ACTIVITY STATUS REPORT (Item 12)**

Mr. Rose presented the written report.

**XV. REAL ESTATE – ACTIVITY STATUS REPORT (Item 13)**

Mr. DiRe presented the written report. Discussion ensued. Ms. Gerardo Lietz stated that she would attend the upcoming meeting for Colony II, which is still underperforming. She reported that Morgan Stanley is on track to provide the returns promised, but that Lazard's final return is dependent on their liquidation plan.

**XVI. REPORT OF THE CHIEF INVESTMENT OFFICER (Item 15)**

Mr. Ailman reviewed the written report.

**XVII. QUARTERLY LITIGATION REPORT (Item 16)**

Mr. Waddell presented the written report and provided an update to the CalMicro Devices Securities Litigation

**XVIII. DRAFT AGENDA FOR MARCH INVESTMENT COMMITTEE MEETING (Item 17)**

Mr. Ailman reviewed the draft agenda for the March Investment Committee meeting. Mr. Ailman requested an action item be added for private equity and that Item 8 be postponed until the April Meeting.

XIX. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 18)

There were no statements from the public.

XX. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 2:35 p.m. and reconvened into closed session.

XXI. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:25 p.m.

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Jack Ehnes, Chief Executive Officer and Secretary to the Teachers'  
Retirement Board

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Gary Lynes, Chairperson